

Environmental Disclosure & Reporting

Magali Delmas
UCLA

Executive summary

Key global trends in sustainability reporting

80%

of companies worldwide now report on sustainability

[See page 10](#)



North America has the highest regional sustainability reporting rate

90% of companies

[See page 11](#)



100%

of the top 100 companies in Japan and Mexico report on sustainability

[See page 13](#)



There has been a surge in integrated reporting in **France, Japan, India** and **Malaysia** since

2017

[See page 21](#)



Third-party assurance of sustainability information in corporate reporting is now a majority business practice worldwide.

[See page 23](#)



GRI remains the dominant global standard for sustainability reporting.

[See page 25](#)



Reporting of risk from biodiversity loss



Less than one-quarter of “at-risk” companies worldwide currently report risks from the loss of biodiversity.

[See page 29](#)

Mining is the only “at-risk” sector in which a majority of companies report risks from biodiversity loss.

[See page 30](#)



Latin American companies lead in reporting of biodiversity-related risk; North American companies lag.

[See page 31](#)

Executive summary

Reporting on climate risk and carbon reduction

Around

40%



of companies now acknowledge the financial risks of climate change in their reporting

[See page 36](#)



One in five companies reports climate risk in line with

TCFD recommendations

[See page 39](#)



A majority of companies worldwide now have targets in place to **reduce their carbon emissions**.

[See page 41](#)



There is a **growing trend** to link corporate carbon targets to global climate goals.

[See page 42](#)

Reporting on the UN Sustainable Development Goals (SDGs)



A significant majority of companies now connect their business activities with the SDGs in their corporate reporting.

[See page 44](#)



However, SDG reporting is often **unbalanced and disconnected** from business goals.

[See page 48](#)



SDGs linked to **economic growth, climate change and responsible consumption** are most frequently prioritized by businesses.

[See page 49](#)



SDGs linked to **protecting biodiversity** are least commonly prioritized by businesses.

[See page 49](#)

Why are the
benefits of ESG
disclosure?

The importance of reporting

- Influences decisions and actions of management
- An essential element of corporate governance
- Influences decisions and actions of shareholders and other stakeholders
- Affects resource allocation (financial, natural and human resources) in society
- Critical for investor confidence
- Influences perceptions of the company's customers, vendors, and employees
- Shapes how a company sees itself

Absence of Common Framework

**Report
Preparer**



Report User





ICGN

International Corporate Governance Network

INTEGRATED REPORTING <IR>



Global Reporting Initiative™



International Organization for Standardization



DRIVING SUSTAINABLE ECONOMIES

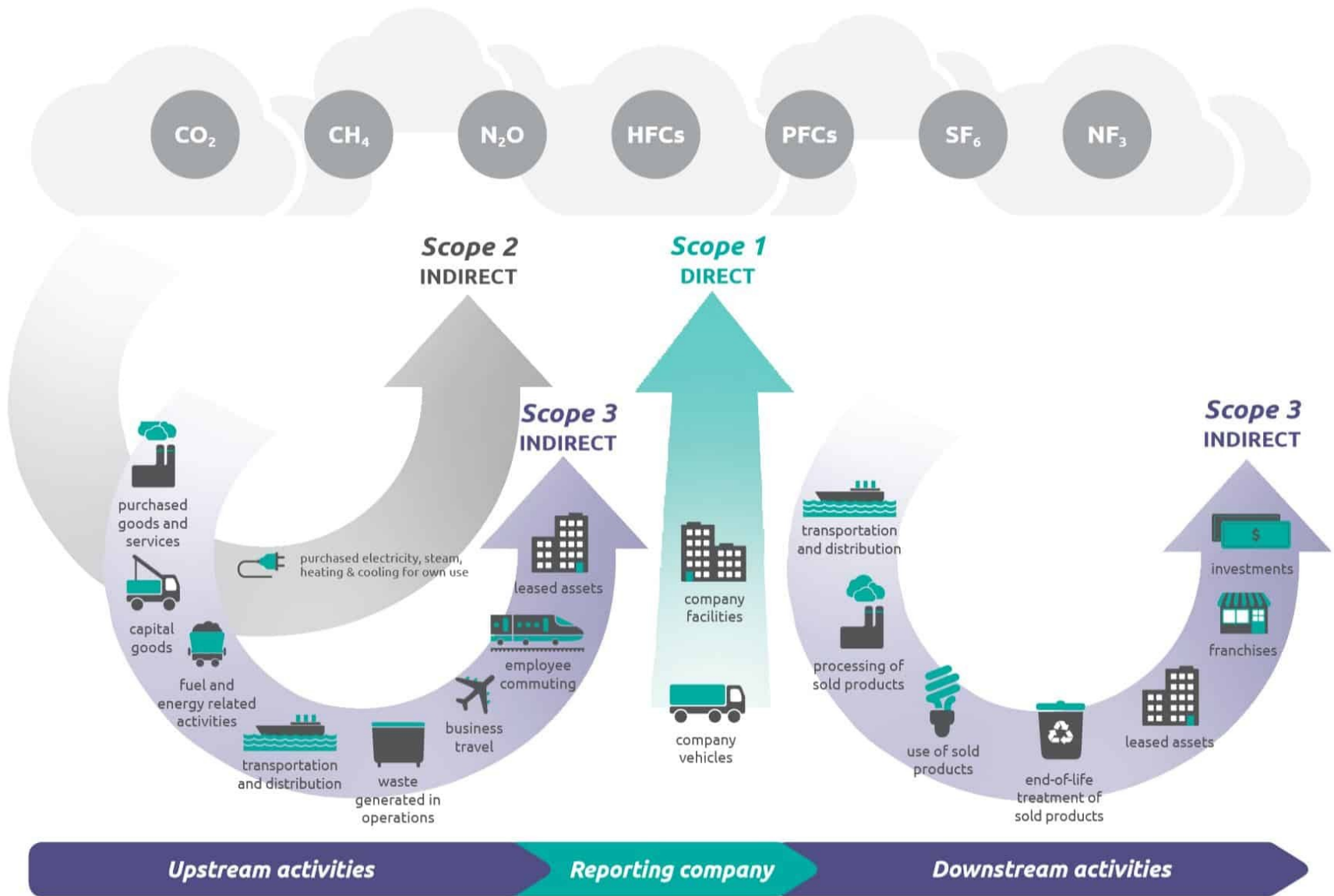
CDP

What is the CDP?

- Represents 827 investors with \$100 trillion in assets
- Works with institutional investors to promote greater transparency
 - Climate change
 - Supply chain
 - Water
 - Forests
- Since 2002 over 8,400 companies have publicly disclosed environmental information through CDP
- Sends questionnaire to companies (as well as cities, states, and regions) for data on environmental performance.
- All information is self-reported

CDP Questionnaire

- Management
 - Governance
 - Strategy
 - Targets and initiatives
 - Communications
- Risks and opportunities
 - Climate change risks
 - Climate change opportunities
- Emissions
 - Emissions methodology
 - Emissions data
 - Data accuracy
- Emissions (cont'd)
 - External verification or assurance
 - Scope 1 emissions breakdown (by business division, GHG type, legal structure, facility, activity)
 - Scope 2 emissions breakdown (by country)
 - Energy: spending, energy type, scope 2 basis
 - Emissions history
 - Emissions intensity
 - Emissions trading
 - Scope 3 emissions



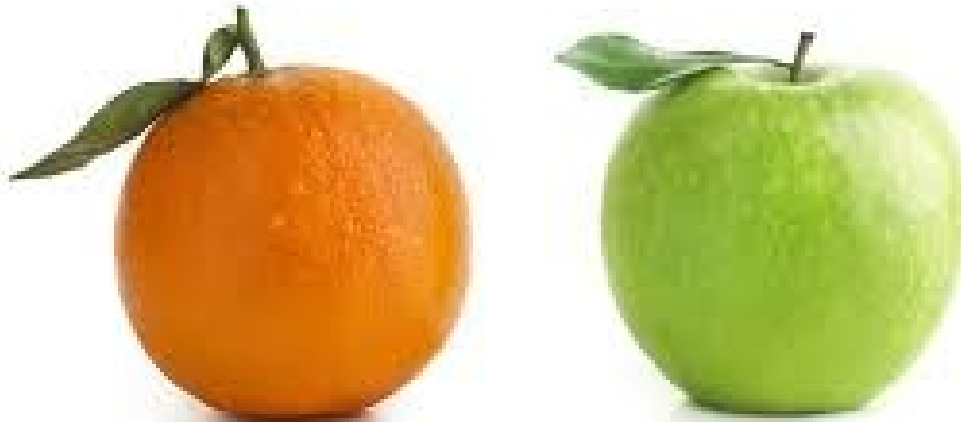
Reporting

Comparable?

Integrated?

Material?

Comparability



GRI



► Mission

- Elevate economic, environmental and social reporting to routine practice, at the highest standards of rigor and comparability.
- Design and continually improve reporting guidelines reflecting the three dimensions of sustainability: economic, environmental, and social
- 2019: 34,000 GRI reports from 14,000 organizations
- You can access the reports [HERE](#)

What does it offer?

consistency

- one framework, worldwide
- potential for common software, etc.

credibility

- developed by stakeholders
- market leader
- widely used and supported by business, government and stakeholders

comparability

- analysts
- investors
- employees
- tax-payers
- suppliers
- CSOs

- Covers Environmental Social and Economic

- **Vision and Strategy** – description of the reporting organization's strategy with regard to sustainability, including a statement from the CEO.
- **Profile** – overview of the reporting organization's structure and operations and of the scope of the report.
- **Governance Structure and Management Systems** – description of organizational structure, policies, and management systems, including stakeholder engagement efforts.
- **GRI Content Index** – a table supplied by the reporting organization identifying where the information listed in Part C of the Guidelines is located within the organization's report.
- **Performance Indicators** – measures of the impact or effect of the reporting organization divided into integrated, economic, environmental, and social performance indicators.

5 sections of reporting

See [Link](#)

Examples of Performance Indicators

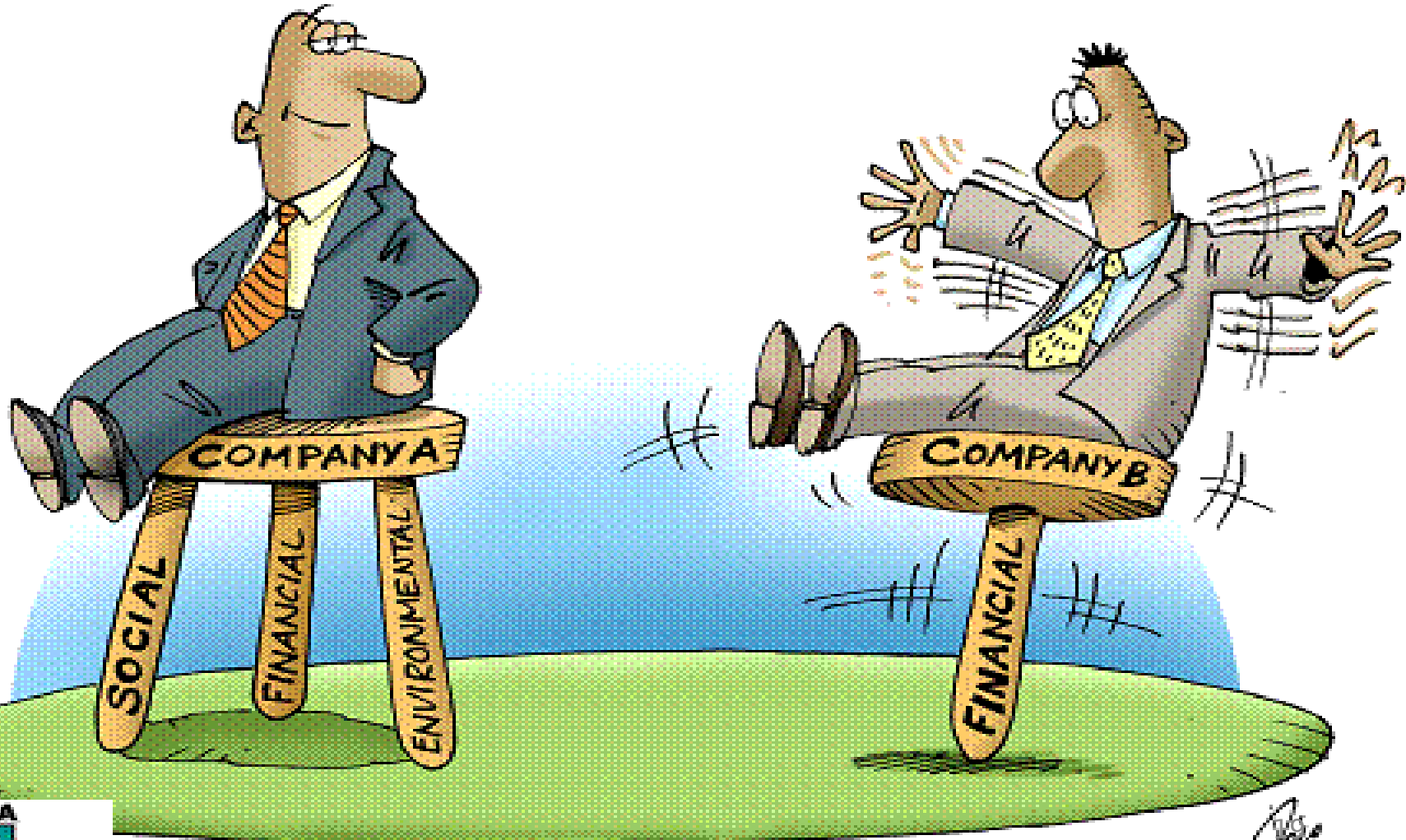
- Economic
 - Financial implications and other risks and opportunities due to climate change (EC2)
 - Local hiring (EC7)
- Environmental
 - Materials used (EN1)
 - Materials used that are recycled input materials (EN2)
 - Energy consumed (EN3/4)
 - Energy saved and initiatives to reduce energy consumption (EN5/7)
 - Impact on biodiversity in protected areas (EN12)
 - Greenhouse gas emissions (EN16/17)
 - Amount of waste (EN22)
 - Environmental impact associated with transportation (EN29)

Examples of Performance Indicators

- Labor
 - Total workforce (LA1)
 - Employees covered by collective bargaining agreements (LA4)
 - Health and safety measures (LA7)
 - Hours of training (LA10)
 - Governance body/employee diversity (LA13)
- Human Rights
 - Human rights screening on suppliers and contractors (HR2)
 - Violation of indigenous rights (HR9)
- Society
 - Impact on community (SO1)
 - Training against corruption (SO4)
- Product Responsibility
 - Life cycle assessment of products/services (PR1)
 - Customer satisfaction (PR5)

► You can access company reports [HERE](#)

INTEGRATED REPORTING IS...

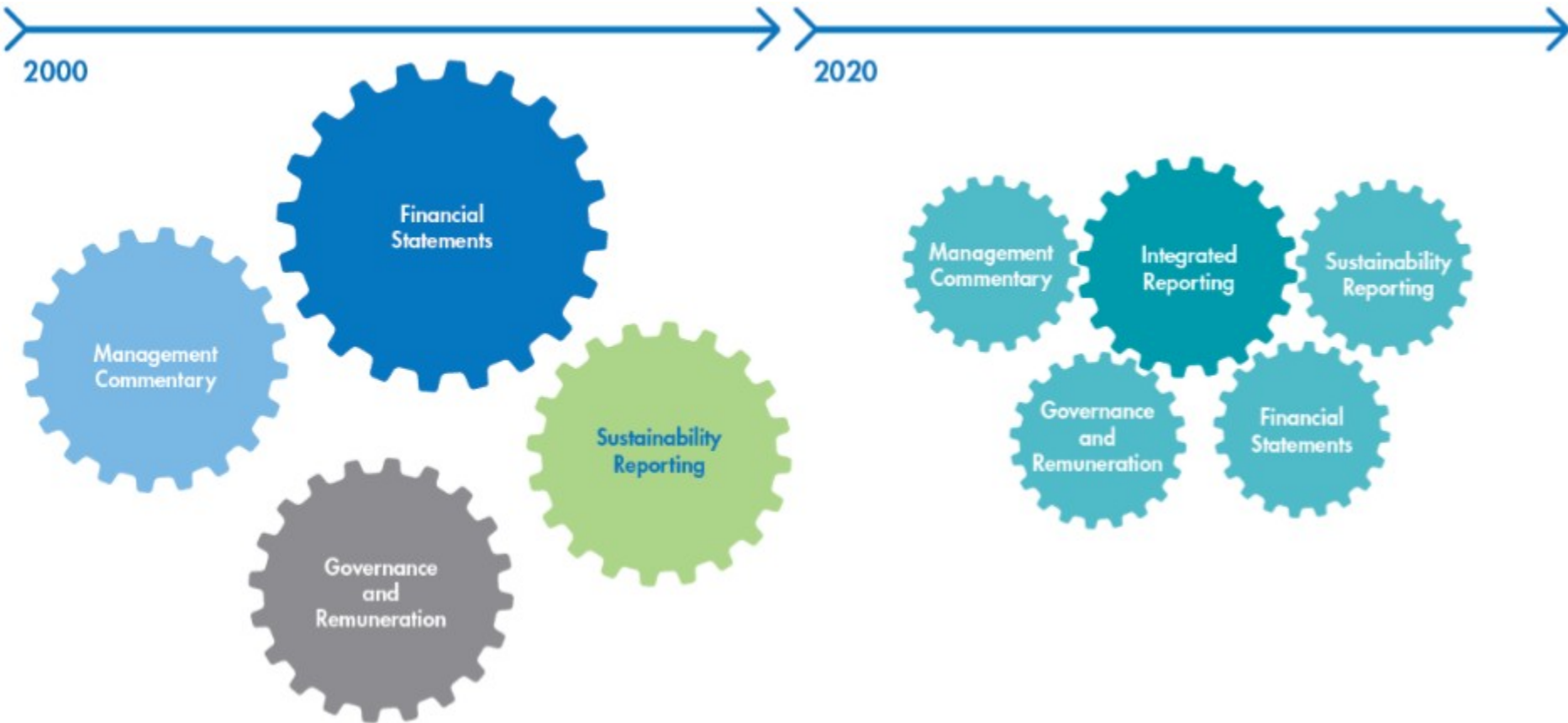


SAGA



SOUTHERN AFRICAN SUSTAINABILITY ASSOCIATION

...Integrated Reporting – the Future



2021 Integrated Reporting Framework [[Link](#)]



INTEGRATED REPORTING **<IR>**

Launch of the revised <IR> Framework

**Tuesday 19 January 2021
12:00 – 13:00 GMT
Free Webinar
Live Streamed and On Demand**

Charles Tilley,
CEO, IIRC

Michelle Edkins,
Managing Director,
BlackRock
Investment
Stewardship

**Suresh
Gooneratne,**
CFO, Diesel &
Motor Engineering

Jonathan Labrey,
Chief Strategy
Officer, IIRC

Sandra Schoonhoven,
Head of
Sustainability,
ING Group

Lisa French,
Chief Technical
Officer, IIRC

Integrated yes, but what should be reported exactly?

- 2021 Integrated Reporting Framework [[Link](#)]
 - Not all relevant matters **will be considered material**
 - To be included in an integrated report, a matter also needs to be sufficiently **important** in terms of its known or potential effect on value creation.
 - This involves evaluating **the magnitude of the matter's effect** and, if it is uncertain whether the matter will occur, its likelihood of occurrence.

Materiality

- Information that could substantively affect the organization's ability to create value in the short, medium, or long term
- US Supreme court: information is material if there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the "total mix" of information made available.
- **SEC** requires that some sustainability related information be disclosed.



SASB & Materiality

- Sustainability Accounting Standards Boards (SASB)
- SASB's Mission: To develop & disseminate sustainability accounting standards that help public corporations disclose **material**, decision making information to investors through a process including evidence-based research and broad, balanced stakeholder participation.
- Aims to provide standardized accounting metrics for **industry-level material** sustainability issues.

Materiality

- Financial statement items are material if they could influence the economic decisions of users. The **materiality** concept is the universally accepted **accounting** principle that all material matters are to be disclosed.
- **Materiality** assessment in the context of sustainability is an **exercise in stakeholder engagement designed to gather insight on the relative importance of specific environmental, social and governance (ESG) issues**. See [Link](#)
- SASB standards address the sustainability topics that are reasonably likely to be material and to have material impacts on the financial condition or operating performance of companies in an industry.
- Aid U.S. public companies in meeting the requirement of Item 303 of Regulation S-K to disclose material information in the management discussion and analysis section of 10-K and 20-F filings

		Consumer Goods						
Dimension	General Issue Category [ⓘ]	Apparel, Accessories & Footwear	Appliance Manufacturing	Building Products & Furnishings	E-Commerce	Household & Personal Products	Multiline and Specialty Retailers & Distributors	Toys & Sporting Goods
Environment	GHG Emissions							
	Air Quality							
	Energy Management							
	Water & Wastewater Management							
	Waste & Hazardous Materials Management							
	Ecological Impacts							
Social Capital	Human Rights & Community Relations							
	Customer Privacy							
	Data Security							
	Access & Affordability							
	Product Quality & Safety							
	Customer Welfare							
	Selling Practices & Product Labeling							
Human Capital	Labor Practices							
	Employee Health & Safety							
	Employee Engagement, Diversity & Inclusion							
Business Model & Innovation	Product Design & Lifecycle Management							
	Business Model Resilience							
	Supply Chain Management							
	Materials Sourcing & Efficiency							
	Physical Impacts of Climate Change							
Leadership & Governance	Business Ethics							
	Competitive Behavior							
	Management of the Legal & Regulatory Environment							
	Critical Incident Risk Management							
	Systemic Risk Management							

Materiality Thresholds

GRI

- Information that could substantively influence the assessments and decisions of stakeholders (GRI 2013, p. 17).

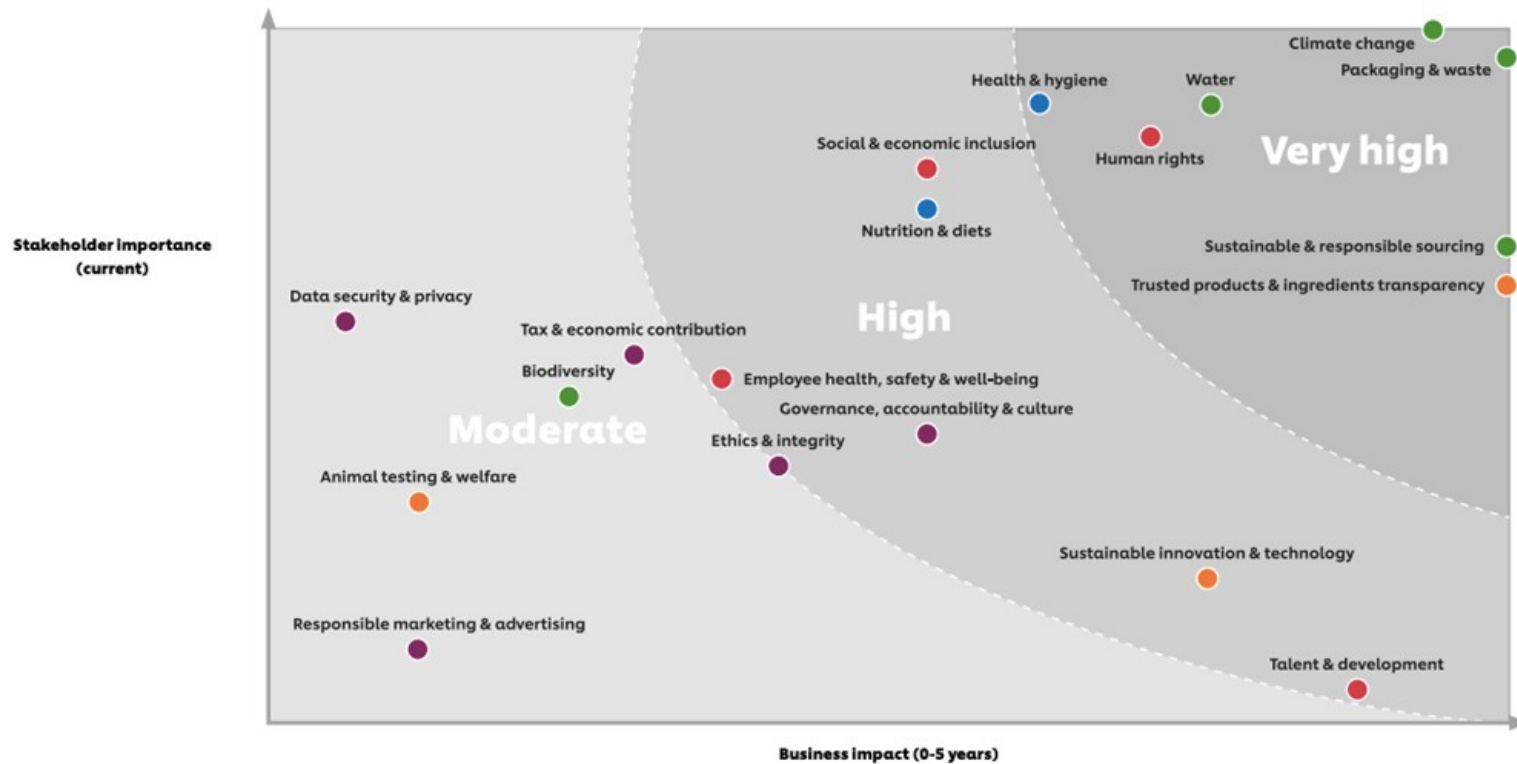
IIRC

- Information that could substantively affect the organization's ability to create value in the short, medium, or long term (p. 33)

SASB

- Information that could be viewed by the reasonable investor as having significantly altered the total mix of information made available (SASB 2013).

Materiality Maps



Unilever

Finding the right chemistry for sustainability reporting

These frameworks help organizations report different aspects of their nonfinancial impact



www.globalreporting.org

PURPOSE: Help organizations report on economic, environmental & social impacts considering a wide range of interests.

AUDIENCE: Broad set of stakeholders

WHERE TO REPORT: Corporate sustainability report

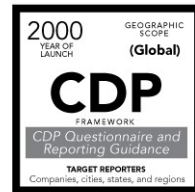
FOCUS AREAS:
ENVIRONMENT
SOCIAL
GOVERNANCE



INFORMATION TO REPORT:

- **General disclosures:** Organization's profile, strategy, ethics and integrity, governance, stakeholder engagement practices, and reporting process.
- **Economic:** Performance, market presence, indirect economic impacts, procurement practices, anti-corruption and anti-competitive behavior.
- **Environment:** Materials, energy, water and effluents, biodiversity, emissions, effluents and waste, environmental compliance, and supplier environmental assessment.
- **Social:** Employment labor/management relations, occupational health and safety, training and education, diversity and equal opportunity, nondiscrimination, freedom of association and collective bargaining, child labor, etc.

PRESCRIPTIVE OR FLEXIBLE: Prescriptive
SECTOR FOCUS: Agnostic (+ some sector-specific guidance)



www.cdp.net

PURPOSE: Capture environmental performance data related to GHG emissions, water, forests, and supply chain.

AUDIENCE: Investors, buyers, other stakeholders

WHERE TO REPORT: CDP's online reporting platform



INFORMATION TO REPORT:

- **Climate change:** Risks and low-carbon opportunities.
- **Forest:** How organizations produce, source, and use major soft commodities associated with detrimental impacts on natural resources.
- **Water security:** Company's management, governance, use, and stewardship of water resources.
- **Supply chain:** Management of climate change, forest and water security.

PRESCRIPTIVE OR FLEXIBLE: Prescriptive
SECTOR FOCUS: Specific



www.integratedreporting.org

PURPOSE: Establish Guiding Principles and Content Elements allowing companies to produce "integrated reports."

AUDIENCE: Investors

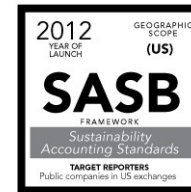
WHERE TO REPORT: Stand-alone integrated report



INFORMATION TO REPORT:

- **Organizational overview** and external environment.
- **Governance structure:** How it supports ability to create value in the short, medium & long term.
- **Business model** of the organization.
- **Risks and opportunities** that affect the ability to create value over the short, medium & long term; how those issues are dealt with.
- **Strategy** and resource allocation.
- **Performance:** Extent to which objectives were achieved for the period; outcomes and their effect on capitals.
- **Outlook:** Challenges and uncertainties likely to be encountered; implications for the business model and future performance.
- **Basis of presentation:** How the organization determines what to include in its integrated report.

PRESCRIPTIVE OR FLEXIBLE: Flexible
SECTOR FOCUS: Agnostic



www.sasb.org

PURPOSE: Facilitate disclosure of material sustainability information in SEC filings.

AUDIENCE: Investors

WHERE TO REPORT: SEC Form 10-K, 20-F filings



INFORMATION TO REPORT:

- **Environment:** Corporate impacts on the environment.
- **Social capital:** Human rights, protection of vulnerable groups, local economic development, access to and quality of products, and services, affordability, responsible marketing, and customer privacy.
- **Human capital:** Issues affecting employee productivity (e.g., employee engagement, diversity, and incentives and compensation).
- **Business model and innovation:** Impact of sustainability issues on innovation and business models, and the integration of these issues in a company's value-creation process.
- **Leadership and governance:** Management of issues inherent to the business model or common practice in the industry that are in potential conflict with the interests of broader stakeholder groups.

PRESCRIPTIVE OR FLEXIBLE: Prescriptive
SECTOR FOCUS: Specific



www.fsb-tcfd.org

PURPOSE: Encourage firms to align climate-related risk disclosures with investors' needs.

AUDIENCE: Investors, lenders, insurers

WHERE TO REPORT: Annual financial filings (e.g., annual report)



INFORMATION TO REPORT:

- **Governance:** Governance around climate-related risks and opportunities.
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.
- **Risk management:** How the organization identifies, assesses, and manages climate-related risks.
- **Metrics and targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

PRESCRIPTIVE OR FLEXIBLE: Flexible
SECTOR FOCUS: Agnostic (+ some sector-specific guidance)

© 2018 The Conference Board, Inc.

Setting Metrics and Disclosures

- WEF + Deloitte, EY, KPMG, and PwC, proposes 2 sets of metrics drawn from existing standards and disclosures (e.g. GRI, SASB, TCDF, etc.):
 - - Core Metrics: A set of 22 **well-established metrics** and reporting requirements.
 - Quantitative metrics for which information is already being reported by many firms (albeit often in different formats) or can be obtained with reasonable effort. They focus primarily on activities within an organization's own boundaries.
 - - Expanded metrics: 34 metrics.
 - Less well established in existing practice and standards and have a wider value chain scope or convey impact in a more sophisticated or tangible way, such as in monetary terms.
 - They represent a more advanced way of measuring and communicating sustainable value creation, and companies are encouraged to report against them as well, when material and appropriate.

WEF-People

Category	Possible Source		Metric	GRI Ref
Dignity and Equality	Not sure. Possibly company's own CSR/ESG report Employee demographics would be hard to come by	Diversity and inclusion	(%) Percentage of employees per employee category, by age group, gender and other indicators of diversity (e.g. ethnicity).	GRI 405-1b
	Glassdoor data from ratings BurningGlass Technologies wage data from job postings company's own CSR/ESG report	Pay equality	(%) Ratio of the basic salary and remuneration for each employee category by significant locations of operation for priority areas of equality: women to men, minor to major ethnic groups, and other relevant equality areas	
	company's own CSR/ESG report Annual Report/10-K	Wage level	(%) Ratios of standard entry level wage by gender compared to local minimum wage. Ratio of the annual total compensation of the CEO to the median of the annual total compensation of all its employees, except the CEO.	GRI 202-1, Adapted from DoddFrank Act, US SEC Regulations
	company's own CSR/ESG report	Risk for incidents of child, forced or compulsory labor	An explanation of the operations and suppliers considered to have significant risk for incidents of child labor, forced or compulsory labor. Such risks could emerge in relation to: a) type of operation (such as manufacturing plant) and type of supplier; and b) countries or geographic areas with operations and suppliers considered at risk.	GRI 408-1b, GRI 409-1
Health and Well-being	company's own CSR/ESG report https://www.osha.gov/data Data from goodjobsfirst.org (volunteer tracked)	Health and safety	(%) The number and rate of fatalities as a result of work-related injury; high-consequence work-related injuries (excluding fatalities); recordable work-related injuries; main types of work-related injury; and the number of hours worked. An explanation of how the organization facilitates workers' access to non-occupational medical and healthcare services, and the scope of access provided for employees and workers	
Skills for the future	company's own CSR/ESG report Glassdoor	Training provided	(#, \$) Average hours of training per person that the organization's employees have undertaken during the reporting period, by gender and employee category (total number of hours of training provided to employees divided by the number of employees). Average training and development expenditure per full time employee (total cost of training provided to employees divided by the number of employees).	GRI 404-1, SASB HC 101-15

WEF-Prosperity

Category	Possible Sources		Metric	GRI
Employment and wealth generation	Annual Report/10-K BurningGlass Postings company's own CSR/ESG report	Absolute number and rate of employment	1. Total number and rate of new employee hires during the reporting period, by age group, gender, other indicators of diversity and region. 2. Total number and rate of employee turnover during the reporting period, by age group, gender, other indicators of diversity and region.	Adapted, to include other indicators of diversity, from GRI 401-1a&b
	Annual Report/10-K company's own CSR/ESG report (for community investment and employee benefits) Data from goodjobsfirst.org (subsidy tracker)	Economic contribution	1. Direct economic value generated and distributed (EVG&D), on an accruals basis, covering the basic components for the organization's global operations, ideally split out by: - Revenues - Operating costs - Employee wages and benefits - Payments to providers of capital - Payments to government - Community investment 2. Financial assistance received from the government: total monetary value of financial assistance received by the organization from any government during the reporting period	GRI 201-1, GRI 201-4
	Annual Report/10-K Question of whether to include M&A activity here	Financial investment contribution	1. Total capital expenditures (CapEx) minus depreciation, supported by narrative to describe the company's investment strategy. 2. Share buybacks plus dividend payments, supported by narrative to describe the company's strategy for returns of capital to shareholders.	As referenced in IAS 7 and US GAAP ASC 230
Innovation of better products and services	Annual Report/10-K Possibly supplement with patenting activity (for non-reported R&D expense)	Total R&D expenses	(\$) Total costs related to research and development.	Adapted from GRI 201-1
Community and social vitality	Annual Report/10-K Data from goodjobsfirst.org (subsidy tracker)	Total tax paid	The total global tax borne by the company, including corporate income taxes, property taxes, non-creditable VAT and other sales taxes, employer-paid payroll taxes, and other taxes that constitute costs to the company, by category of taxes	Adapted from GRI 201-1

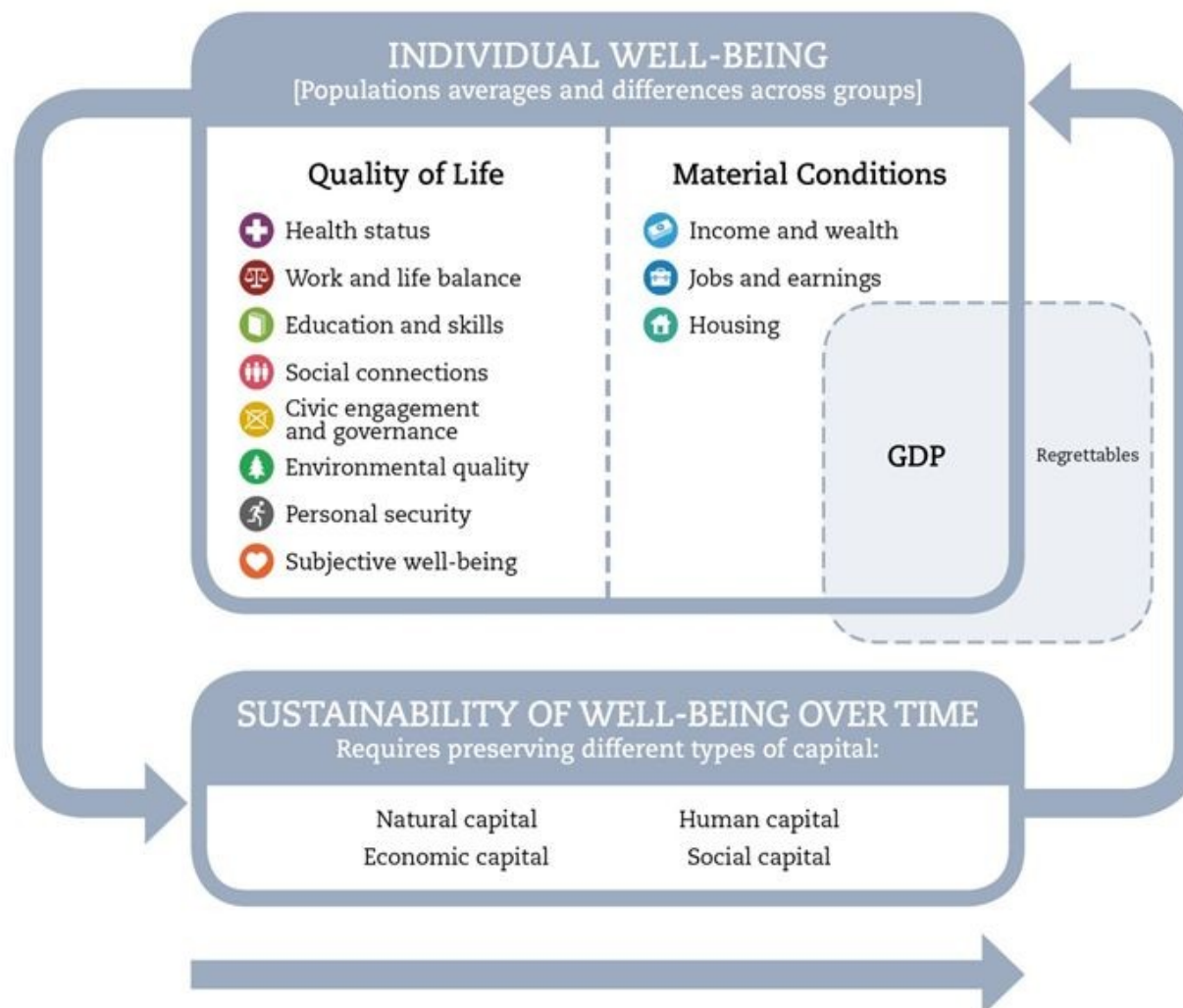
Conclusion

- Transparency is a key element of sustainability
- International Voluntary approaches promote standardization
- Main principles:
 - Integrated approach
 - Materiality
 - Comparability and credibility
- Such approaches will remain limited if they are not mandated by governments

The big picture
metrics?

OECD well-being framework

OECD well-being framework > Applying the framework > Extending the framework



UN Sustainable Development Goals

The World's To-Do List by 2030



<https://sustainabledevelopment.un.org/sdg1>

<http://aim2flourish.com/>